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TAGS: ECON EFIN EINV ETRD KIPR PGOV NI
SUBJECT: NIGERIA: ECONOMIC BRIEFS, APRIL - MAY 2006

¶1. Summary: The Central Bank of Nigeria (CBN) reported the lowest inflation figures in 10 years with a drop from 10.7 percent in January to 7.9 percent in February. Inter-bank interest rates also declined significantly as the system experienced a liquidity ease following release of monthly statutory allocations. Following the conclusion of the bank consolidation exercise, eight of the fourteen failed banks have filed a law suit against the CBN for withdrawing their licenses, thus stalling the liquidation process. Meanwhile, surviving banks are forming partnerships with foreign banks to manage Nigeria's external reserves currently estimated at USD 33 billion.

¶2. This economic update includes:
-- Macroeconomic Overview
-- Bank Consolidation Update
-- Banks Scramble to Manage External Reserves

According to a CBN directive, for a bank to qualify to manage USD 500 million in reserves, it must have a minimum capital base of USD 1 billion and a joint venture relationship with a foreign bank. End summary.

Macroeconomic Overview

¶3. The Central Bank of Nigeria (CBN) in its February monthly report claimed the inflation rate dropped from 10.7 percent in January to 7.9 percent in February. According to the CBN, this is the lowest rate achieved in over 10 years. Similarly, interest rates declined as inter-bank call rates dropped from 27.1 percent in January to 5.6 percent in February, indicating a liquidity ease in the system, partially stemming from the release of monthly statutory allocations. Deposit and lending rates also fell marginally from a range of 3.7 - 8.6 percent to 3.5 - 8.5 percent, and 12.7 percent to 12.5 percent respectively.

Stock Exchange Update

¶4. Aggregate market capitalization in the Nigerian Stock Exchange (NSE) recorded an all-time high at the end of April with an increase of 3.4 percent from naira 2.95 trillion (USD 22 billion) recorded in March. The increase in market capitalization was largely attributed to new listings in the banking and mortgage sub-sectors in the equities segment of the Exchange. The monthly NSE report showed that investors exchanged 7.4 billion shares valued at naira 86.9 billion (USD 668 million) in the first quarter of 2006.

Bank Consolidation Update; Failed Banks Sue CBN

¶5. A group of eight of the 14 'failed' banks have filed a law suit against the CBN and its Governor, Charles Soludo, seeking an order to set aside the CBN's directive that declared them insolvent. The litigating banks also requested the CBN to refund them naira 4.8 billion (USD 37 million) paid into escrow in a CBN account. The banks also leveled accusations of the CBN imposing discriminatory, arbitrary and unjust conditions prior to the deadline, and illegally declaring member banks insolvent. The banks also accused the interim committees appointed by the CBN to manage them of looting their treasuries.

¶6. Comment: The lawsuit has stalled the liquidation process for the banks involved, making the CBN's three month depositors' funds repayment schedule unrealistic. The litigating banks are Liberty Bank, Fortune Bank, Gulf Bank, City Express Bank, Metropolitan Bank, Triumph Bank, Eagle Bank and African Express Bank. The eight banks had tried to beat the December 2005 recapitalization deadline by forming the Alliance Bank Group, but failed to gain approval. The CBN also confirmed the four banks that have not sued (Allstates, Lead, Assurance, and Trade banks) are in the process of being liquidated. End comment.

¶7. Meanwhile, Ecobank Nigeria has taken over naira 22 billion (USD 169 million) of private sector deposits of Allstates Trust Bank, one of the 14 failed banks. The takeover approved by the CBN involved bids from five banks in a purchase and assumption ("cherry picking") model of acquisition, which resulted in Ecobank as the preferred bidder. Depositors have widely praised this development with Allstates bank depositors being assured prompt payment by Ecobank once its accounts have been verified. Industry experts have urged the CBN and NDIC to explore this option with other failed banks, rather than go down the bank liquidation route.

Banks Scramble to Manage External Reserves;
Ally with International Banks

¶8. Leading banks have been forming alliances with foreign banks in a bid to qualify to manage Nigeria's external reserves, currently estimated at USD 33 billion. Following the CBN's January 2006 directive that banks interested in managing Nigeria's external reserves must have a capital base of USD 1 billion, Zenith Bank Plc and JP Morgan Chase bank signed a Memorandum of Understanding (MoU)to qualify to manage about USD 500 million of the reserves. Recently, First Bank of Nigeria announced its new alliance with HSBC, while IBTC Chartered Bank Plc has entered into a strategic partnership with Credit Suisse (formerly Credit Suisse First Boston). Union Bank of Africa (UBA) has also partnered with United Bank of Switzerland. Meanwhile, Union Bank claimed it is partnering with Merrill Lynch USA, and officials of Guaranty Trust Bank (GTBank) said discussions are ongoing with a leading foreign bank to partner on the management of part of Nigeria's external reserves. Oceanic Bank is still in discussion with Sterling Bank, but has not found a foreign partner. (Comment: The CBN governor, May 17, announced the appointment of JP Morgan as global custodian of the funds and said external fund managers will be appointed in June 2006. End comment.)

¶9. However, Bismarck Rewane, an economic analyst, down-played the importance of the banks' new alliances, and the drive to manage Nigeria's external reserves. He doubted the banks' profitability would improve simply by managing the reserves, since such funds can only be invested in specific instruments considered safe. Such instruments, he said, would yield little income. According to him, "for the noise effect, the alliances with foreign banks may project the banks positively to customers". He believes banks should be more concerned to improve on competencies required to manage the huge capital now at their disposal, rather than take on the responsibility of managing reserves.

Browne